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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
)	
Comments on the Interim)	FCC 99J-2
Hold-Harmless Provision)	

COMMENTS OF SPRINT CORPORATION

Sprint Corporation ("Sprint"), on behalf of its local, long distance and wireless divisions, submits its comments in response to the Public Notice released November 3, 1999 in which the Federal-State Joint Board on universal service requests comments on the Commission's hold harmless provision of the high-cost support mechanism.

In comments filed July 23, 1999 regarding the establishment of the federal high-cost support mechanism, Sprint strongly encouraged the Commission to adopt a hold harmless provision as an essential part of its plan. Sprint expressed its belief that, in creating Section 254 of the Act¹, Congress clearly did not intend for changes in the universal service support mechanism to harm either carriers or end users. With this in mind, Sprint suggested not only that a hold harmless mechanism be adopted, but that it be crafted to ensure that no carrier or state receives less explicit federal high cost support than it receives currently.

¹ Telecommunications Act of 1996, Pub. L. 104-104.

In its most recent Order implementing changes to the administration of the high cost fund,² the Commission agreed that a hold harmless proviso must be implemented as part of the high-cost support mechanism. At the same time, the Commission determined that support levels will be calculated by "... comparing the forward-looking costs of providing supported services, averaged at the statewide level, to the national benchmark." (Order at ¶45). Similarly, in a companion order³, the Commission adopted a set of national inputs to be used for determining universal service costs and the associated cost benchmark.

Sprint asserts that the combined impact of these recent decisions makes proper management of the hold harmless mechanism absolutely crucial. Specifically, by adopting this type of calculation methodology, the Commission has insured that a number of companies will be losing universal service support at the end of the hold harmless period. This will occur for two reasons. First, study areas that the forward-looking model considers to be high-cost - and which are also high-cost under the existing high-cost mechanism - will be averaged with lower cost study areas in the same state resulting in no new funding for any study areas in the state. This type of averaging does not occur in the existing high-cost mechanism. Second, study areas that are currently high-cost based on company-specific data, may not, going forward, be considered high-cost as a result of using national averages as inputs to the Commission's proxy model.

The obvious effect of implementing a federal fund based on a statewide average of study-area specific costs is to create a need for individual states to establish mechanisms by which high-cost study areas are subsidized by lower cost study areas within the same state.

² *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Ninth Report & Order and Eighteenth Order on Reconsideration, rel. November 2, 1999 ("Order").

³ *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *In the Matter of Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*, CC Docket No. 97-160, Tenth Report and Order, rel. November 2, 1999.

The difference in costs based on nationwide-average inputs vs. company-specific inputs can be readily seen in Sprint's Centel Texas serving territory (a current high cost company which will receive no new federal USF due to statewide averaging.) Using nationwide defaults, the FCC's proxy model produces a study area average forward-looking economic cost of \$33.83 for Centel Texas. Using company-specific inputs the same model produces a cost of \$43.32, an increase of 28%. In the rural portions of Sprint's Centel territory the difference is even more pronounced. In wire centers serving less than 1,000 lines the average cost using nationwide defaults was \$114.92, while the average cost using Sprint-specific inputs was \$173.03, an increase of over 50%. In many states, including Texas, the mechanisms to handle these types of situations do not currently exist. Consequently, the Commission must proceed with caution, allowing sufficient time to carriers and states to determine how they will continue to make available services in high cost areas that no longer receive federal support.

As noted above, this situation is being created due to the Commission's reticence surrounding the need to utilize company specific inputs in the cost model. Sprint has consistently supported the notion of using company-specific inputs to determine a company's forward-looking cost of providing supported services. In its July 23rd comments, Sprint specifically opposed the elimination of hold harmless until the Commission adopted inputs that accurately reflect costs on a company specific basis. To do otherwise, Sprint noted, would produce a situation in which universal service support could be denied to a smaller LEC that serves primarily high cost areas but could not achieve the lower per unit costs that a larger LEC, serving both high and low cost areas, is able to achieve. Because the Commission has declined to make company specific inputs integral to the cost model process, this is precisely the situation that has been created.

Sprint understands that the Commission is committed to basing the federal fund on forward-looking costs (“FLEC”) since FLEC provides the proper signal for efficient competitive entry. Sprint fully supports the Commission’s reasoning on this point. However, what has been overlooked in the equation is the simple fact that the purpose of the existing fund has been to assist carriers in the recovery of FLEC costs that will be incurred. Consequently, calculations of support from the existing high cost fund rely on company-specific costs. Thus, while the use of FLEC does send the proper competitive signal, it does not negate the fact that carriers currently receiving high cost support will continue to require that assistance in order to recover their FLEC costs. The end result of the Commission’s decision, therefore, is the creation of a fund that, going forward, achieves the goal of furthering competition, but which, at the same time, abandons existing high cost providers.

Primarily serving the rural, secondary markets in a state, the Sprint local telephone companies, unfortunately, serve as an all too real example of this dilemma. Certain Sprint LTCs today receive federal high cost support. Once the new high cost fund is introduced and statewide averaging is instituted, that support will cease to exist. Consequently, while the costs incurred by these Sprint LTCs to serve these high cost markets will remain the same, the companies will not receive federal support to assist them to continue to provide supported services.

Regardless of the manner in which costs are calculated – and in spite of the fact that the failure to use company-specific inputs will skew the model results - the supported services must continue to be made available. Accordingly, the cost support formally received from the federal fund must now be replaced. The logical source for these funds will, of course, be the affected states.

Because the Commission has effectively shifted this funding burden to the states, Sprint asserts that the Commission must maintain hold harmless on the federal level until such time as the states are able to assess adequately their situations as well as their abilities to deal with the predicament in which they now find themselves. Toward that end, Sprint suggests that the Commission establish a fixed timeframe during which hold harmless will remain firmly in place following the final cost calculations on the federal level. This time, which should be at least 24 to 36 months in length, will be used by the states to conduct their own universal service proceedings and determine the company specific costs of providing the supported services in their territories.

In suggesting that hold harmless remain in place until a “final” calculation of the cost of universal service is achieved, Sprint emphasizes that such a calculation must include the FLEC costs of both non-rural and rural carriers. Until the extent of the universal service need – in total – is identified, the Commission cannot reasonably shift the support burden to the states. It would be illogical to expect a state to create a mechanism to fill the support gap created by the introduction of the new federal methodology without complete knowledge of the true size of that gap. The FLEC costs of rural carriers are obviously essential - and

currently missing - pieces of information that will be critical to the states' task. The Commission must not, therefore, remove hold harmless until such time as it has completed its own USF task and has quantified the nation's total universal service need.

Respectfully submitted,
SPRINT CORPORATION

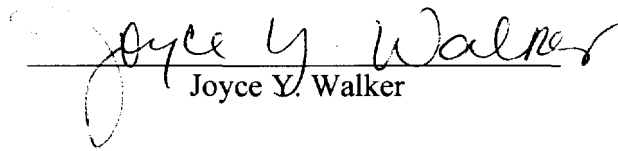
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December 1, 1999

CERTIFICATION OF SERVICE

I, Joyce Y. Walker, hereby certify that I have on this 1st day of December 1999, served via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of Sprint Corporation's comments "In the Matter of Federal-State Joint Board on Universal Service, and on the Interim Hold-Harmless Provision", CC Docket 96-45, and FCC 99J-2, filed this date with the Secretary, Federal Communications Commission, to the persons on the attached service list.


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